



Capital One Financial Corporation (COF)

Updated January 27th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$139	5 Year CAGR Estimate:	2.3%	Market Cap:	\$57 B
Fair Value Price:	\$129	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	02/02/24
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date¹:	02/16/24
Dividend Yield:	1.7%	5 Year Price Target	\$143	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Capital One Financial Corp. is one of the largest providers of MasterCard and Visa credit cards in the U.S. and provides various financial products and services in the United States, Canada, and the United Kingdom. It operates through three segments: Credit Card, Consumer Banking, and Commercial Banking. The company had \$348.0 billion in deposits and \$478.5 billion in assets under management as of December 31st, 2023, making it the 10th largest bank in the US. Capital One is a \$57 billion company and has about 53,600 employees.

On January 25th, 2024, Capital One released its fourth quarter and full year 2023 results for the period ending December 31st, 2023. For the quarter, the company's net income for the fourth quarter of 2023 was \$706 million, or \$1.67 per diluted common share, compared with net income of \$1.8 billion, or \$4.45 per diluted common share, in the third quarter of 2023, and with net income of \$1.2 billion, or \$3.03 per diluted common share in the fourth quarter of 2022.

For the full year 2023, Capital One reported net revenue of \$36.8 billion, an increase of 7% and net income of \$4.9 billion, or \$11.95 per diluted common share. This represents a 33% decline in earnings per share. Quarterly net interest income (NII) improved 4% from the prior year quarter to \$7.52 billion. The net interest margin (NIM) declined 11 basis points (bps) year-over-year to 6.73%. The results were adversely impacted by higher provisions, increasing deposit costs, and a rise in non-interest expenses. However, an increase in net interest income and higher loan balance offered support. Further, higher fee income on the back of robust credit card performance acted as a tailwind. Provision for credit losses was \$2.86 billion in the reported quarter, rising 18% from the prior-year quarter. The efficiency ratio was 60.14%, up from 56.19% in the year-ago quarter. A rise in the efficiency ratio indicates a deterioration in profitability. Total quarterly net revenues were \$9.51 billion, up 5% from the prior-year quarter. As of December 31st, 2023, the common equity Tier 1 capital ratio was 12.9%, improving from 12.5% in the prior year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$7.58	\$7.00	\$6.93	\$7.38	\$11.86	\$11.05	\$5.18	\$26.94	\$17.91	\$11.95	\$13.60	\$15.02
DPS	\$1.20	\$1.50	\$1.60	\$1.60	\$1.60	\$1.60	\$1.00	\$2.00	\$2.40	\$2.40	\$2.40	\$2.78
Shares²	553	527	480	486	468	457	459	414	410	410	410	400

Capital One has grown earnings by 5.2% per year over the past decade and 4.2% over the past five years. Due to COVID-19, earnings-per-share plunged in 2020 to \$5.18 before recovering very strongly in 2021. We are forecasting a 2% increase in earnings-per-share over the next five years as a result.

The company has a long history of paying dividends. Due to COVID-19 and the Federal Reserve's cap on dividend payouts for banks, Capital One had to cut its dividend by 75% to \$0.10 per share in 2020. This was the company's first dividend cut since 2009. In June 2021, the quarterly dividend was raised by 50% from \$0.40 to \$0.60 per share. Over the last five years, the average annual dividend growth rate is 8.4%. During the reported quarter, Capital One repurchased 1.4 million shares for \$150 million.

¹ Estimated date.

² In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	10.4	11.4	10.3	11.7	7.9	8.1	14.5	5.4	7.8	11.0	10.2	9.5
Avg. Yld.	1.9%	1.9%	2.3%	1.9%	1.7%	1.8%	1.3%	1.4%	1.6%	1.6%	1.7%	2.0%

During the past decade shares of Capital One have traded with an average price-to-earnings ratio of about 9.8 times earnings and today, it stands at 10.2. We are using 9.5 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 1.7% which is slightly above the average yield over the past decade of 1.6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	16%	21%	23%	22%	13%	14%	19%	7%	13%	20%	18%	19%

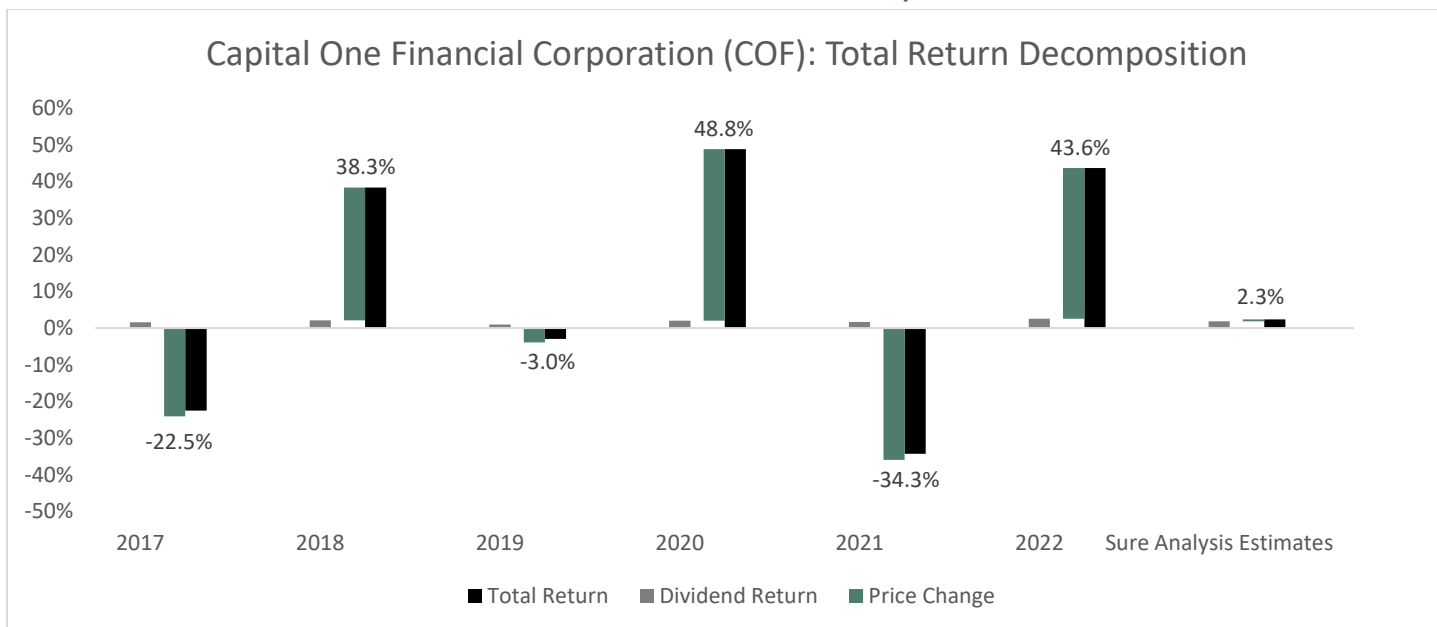
During the past five years, the company's dividend payout ratio has averaged around 14%. The company has a projected 2024 payout ratio of 20%, which should be a very sustainable level.

Capital One is one of the leading issuers of credit cards in the U.S. and about two-thirds of its revenue is coming from its credit card segment. Key elements to monitor for this stock are net interest income and net interest margin. Capital One's strategic acquisitions, increased demand for consumer loans, rising rates, and improved card business place it in a good position for long-term growth. However, increasing expenses and a worsening economic environment are major short-term concerns.

Final Thoughts & Recommendation

Capital One is the largest bank in the U.S. and strongly depends on its credit card business. Economic growth or a slowdown, interest rates hikes, and inflation will mainly dictate its earnings-per-share. After the strong earnings in 2021, and setback in 2022 and 2023, we expect that earnings will return to lower levels in the intermediate term. We estimate a total return potential of 2.3% per year for the next five years based on a 2% EPS growth, a 1.7% yield, and a valuation headwind. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	22,384	22,290	23,413	25,501	27,237	27,577	28,593	28,523	30,435	34,250
D&A Exp.	2,065	2,002	2,100	2,428	2,440	2,396	3,339	3,501	3,481	3,210
Net Profit	4,121	4,428	4,050	3,751	1,982	6,015	5,546	2,714	12,390	7,360
Net Margin	18.4%	19.9%	17.3%	14.7%	7.3%	21.8%	19.4%	9.5%	40.7%	21.5%
Free Cash Flow	9,166	8,802	9,595	11,077	13,164	12,104	15,752	15,989	11,612	12,880
Income Tax	2,224	2,146	1,869	1,714	3,375	1,293	1,341	486	3,415	1,880

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	296.9	308.2	334.0	357.0	365.7	372.5	390.4	421.6	432.4	455.3
Cash & Equivalents	5,952	7,242	8,023	9,976	14,040	13,186	13,407	40,509	21,746	30,860
Accounts Receivable	1,418	1,079	1,189	1,351	1,536	1,614	1,758	1,471	1,460	2,104
Goodwill & Int. Ass.	13,978	13,978	14,480	14,519	14,533	15,072	15,127	15,110	15,313	14,780
Total Liab (\$B)	255.3	263.1	286.8	309.5	317.0	320.9	332.4	361.4	371.4	402.7
Accounts Payable	307	254	299	327	413	458	439	352	281	527
Long-Term Debt	39,739	47,577	58,101	59,468	59,705	58,553	55,280	39,796	42,213	47,800
Shareholder's Equity	41,632	45,053	47,284	47,514	48,730	51,668	58,011	60,204	61,029	52,580
LTD/E Ratio	0.95	1.06	1.23	1.25	1.23	1.13	0.95	0.66	0.69	0.91

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.4%	1.5%	1.3%	1.1%	0.5%	1.6%	1.5%	0.7%	2.9%	1.7%
Return on Equity	10.0%	10.2%	8.8%	7.9%	4.1%	12.0%	10.1%	4.6%	20.4%	13.0%
ROIC	4.8%	5.1%	4.1%	3.5%	1.8%	5.5%	5.0%	2.5%	12.2%	7.2%
Shares Out.	573	553	527	480	486	468	457	459	414	393
Revenue/Share	38.09	38.98	42.72	50.02	55.75	57.08	60.85	62.16	68.52	87.11
FCF/Share	15.60	15.39	17.51	21.73	26.94	25.05	33.52	34.84	26.14	32.74

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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